

**STATE OF HAWAII**  
**HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION**

**DRAFT SUBSTANTIAL AMENDMENT NO. 4 TO THE**  
**NEIGHBORHOOD STABILIZATION PROGRAM**  
**SUBSTANTIAL AMENDMENT**

This draft Substantial Amendment No. 4 represents proposed modifications to the State of Hawaii's Neighborhood Stabilization Program (NSP) Substantial Amendment and application, approved on March 19, 2009.

The proposed modifications address two areas:

- 1) The affordability provisions for the State's NSP rental housing activities shall be specified to adopt the HOME program standards at 24 CFR 92.252 (a), (c), (e), and (f), as provided for in the NSP notice dated October 19, 2010.
- 2) The County of Kauai's (County) new NSP Homebuyer Revolving Loan Fund (HRLF) shall be included as an eligible activity under NSP Eligible Use E, which provides for the redevelopment of vacant properties and direct homebuyer assistance. The HRLF will be funded with future NSP program income generated by sales proceeds and loan repayments from each of the County of Kauai's activities, less administrative costs. Ten percent of program income will be utilized for the County's NSP administrative costs and 90 percent will be placed into the HRLF. The HRLF will provide loans for primary (first) or gap (second) mortgage financing to first-time homebuyers whose incomes are at or below 120 percent of HUD's AMI.

In accordance with the Federal Register Notice dated November 27, 2012, after the NSP grant closeout, if the annual NSP program income earned exceeds \$250,000, 25 percent of the program income shall be used to house individuals or families below 50 percent of AMI. If required to meet the set aside, the County will provide homebuyer loan financing to households at or below 50 percent AMI under the HRLF program.

Details of the HRLF are attached as Exhibit A.

All other aspects of the State's NSP Substantial Amendment, as amended, remain the same.

On May 9, 2013, a Notice of Public Comment was posted to HHFDC's website at <http://hawaii.gov/dbedt/hhfdc>, inviting the public to comment on Amendment No. 4 to the NSP Substantial Amendment. The 15-day public comment period will end on May 24, 2013.

## EXHIBIT A

### ***COUNTY OF KAUAI – NSP HOMEBUYER REVOLVING LOAN FUND***

(1) **Activity Name:** County of Kauai’s NSP Homebuyer Revolving Loan Fund

(2) **Activity Type:** (include NSP eligible use & CDBG eligible activity)

NSP Eligible Use: 2301(c)(3)(E) – Redevelop demolished or vacant properties

CDBG Eligible Activity: 570.201 (n) – Direct homeownership assistance.

(3) **National Objective:** (Must be a national objective benefiting low, moderate and middle income persons, as defined in the NSP Notice—i.e., ≤ 120% of area median income).

LMMH: Provides permanent residential structures that will be occupied by a household whose income is at or below 120 percent of area median income.

(4) **Activity Description:**

**Include a narrative describing the area of greatest need that the activity addresses; the expected benefit to income-qualified persons; and whether funds used for this activity will be used to meet the low income housing requirement for those below 50% of area median income.**

This activity will provide financing for the purchase of permanent housing structures that will be occupied by first-time homebuyers whose incomes are at or below 120 percent of HUD’s AMI. The benefit to income-qualified persons is that low-, moderate-, and middle-income households (LMMH) will be able to purchase homes to serve as their primary residence. Funds will be used to provide loans for homeownership assistance through primary (first) and gap (second) mortgages for single-family, income-eligible households. Payments on the HRLF loans are considered program income and will be revolved back into the HRLF. In addition, NSP program income funds generated from the County of Kauai’s existing activities will be placed into the HRLF. Ten percent of all program income generated from each of the County of Kauai’s activities will be retained by the County for their administrative costs.

(5) **Location Description:** (Description may include specific addresses, blocks or neighborhoods to the extent known.)

Target areas for the County of Kauai as defined by NSP.

**(6) Performance Measures (e.g., units of housing to be acquired, rehabilitated, or demolished for the income levels of households that are 50 percent of area median income and below, 51-80 percent, and 81-120 percent).**

Utilizing current program income and future program income generated from loan repayments or sales proceeds, the NSP Homebuyer loan activity will be able to provide an estimated four (4) primary mortgage loans or fifteen (15) gap mortgage loans to households that are at or below 120 percent AMI.

In accordance with the Federal Register Notice dated November 27, 2012, after the NSP grant closeout, if the annual NSP program income earned exceeds \$250,000, 25 percent of the program income shall be used to house individuals or families below 50 percent of AMI. If required to meet the set aside, the County will provide homebuyer loan financing to households at or below 50 percent AMI.

**(7) Total Budget: (Include public and private components)**

Program Income, grant and revolving loan funds anticipated to be approximately \$1.4 million.

**(8) Responsible Organization: (Describe the responsible organization that will implement the NSP activity, including its name, location, and administrator contact information)**

Kauai County Housing Agency  
4444 Rice Street, Suite 330  
Lihue, Hawaii 96766

Contact: Kerri Villa, Program Coordinator  
(808)241-4435

**(9) Projected Start Date:**

Upon HUD approval of the Substantial Amendment No. 4.

**(10) Projected End Date:**

Perpetuity

**(11) Specific Activity Requirements:**

**For acquisition activities, include:**

- discount rate

**For financing activities, include:**

- range of interest rates

HRLF Types, Loan Amounts, Terms, and Interest Rates

*Primary Mortgage Loan* – are available from a minimum of \$25,000 to a maximum of \$450,000. The maximum Primary Mortgage Loan amount shall be the lesser of 100

percent of the estimated market value or the sales price of an eligible property, and require a first mortgage in favor of the County. Primary Mortgage Loans are amortized for 30 years and made for a period of 15 years. A balloon payment shall be due at the end of the 15 years. However, if the borrower re-qualifies as a low-moderate income household pursuant to HUD regulations or KCHA rules and the current interest rate of all participating lenders exceed four and one-half percent (4.5%), the borrower may then elect to extend their loan term to fully amortize loan repayment up to a maximum of fifteen (15) additional years. The interest rate will be based on the borrower's annual gross income (AGI) at the time of requalification. In calculating the extension, the amortization period shall be the shortest amortization period available where the total debt-to-income ratio of the borrower is the greatest percentage without exceeding (45%).

*Gap Mortgage Loan* – are available from a minimum of \$25,000 to a maximum of \$150,000. Gap Mortgage Loans shall be made for a time period of thirty (30) years, and shall require interest-only payments during the first seven (7) years of the loan and a second mortgage in favor of the County. From the first month of the eighth year of the loan, the borrower shall make monthly payments of principal and interest to the County for the remaining twenty-three (23) years through the end of the loan term. The monthly payment amount shall be equal payments derived by fully amortizing the original principal loan amount and the interest. Down payment assistance is capped at 50 percent of the down payment required by the participating lender.

*The Annual Percentage Rate* – charged for Primary and Gap Mortgage Loans will be in accordance to the borrower's AGI of all household members as determined by the current HUD Income Limits. The schedule of interest rate calculations are:

60% and below = 2.0%  
61% - 80% = 2.5%  
81% - 120% = 3.0%

**For housing related activities, include:**

- **duration or term of assistance;**  
15 – 30 years
- **tenure of beneficiaries--rental or homeownership;**  
Homeownership
- **a description of how the design of the activity will ensure continued affordability**

The Kaua'i County Housing Agency will adhere to the minimum affordability provisions of the Federal HOME Investment Partnership Program, as provided by 24 CFR 92.254.

To ensure continued affordability for NSP assisted housing, KCHA will impose a recapture restriction with a 20-year Restriction on Sale, Transfer, Debt and Use.

Homebuyers who receive NSP financing will enter into an agreement against the title of the home that restricts the appreciation a homeowner could earn upon sale during the restriction period.

The HRLF will require that the homeowner repay the County loan if they fail to occupy the NSP assisted home as their primary residence or violate any of the restrictions or conditions of the HRLF. In addition, the recapture restriction shall be enforced by a real property mortgage, promissory note, and NSP Home Buyer Loan Agreement.

All borrowers are subject to Home Buyer Recapture Provisions. If the borrower elects to transfer or sell the property during the term of the Home-Buyer loan, the Home-Buyer loan shall be due on sale. The net proceeds shall be disbursed pursuant to law and according to the relative position of recorded liens and assessments before the owner may recover the amount of the owner's down payment, closing fees and costs, and any capital improvement made to the property.